HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

St. Catharines-Niagara CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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Market at a Glance

- MLS® sales will moderate in both 2012 and 2013 and the average resale price will grow only modestly in 2013.
- Housing starts will stay relatively level at the end of 2012. They will moderate slightly in early 2013 before stabilizing later in the year.
- While housing activity moderates in the immediate term, improving economic conditions and modest price gains will support housing demand later in 2013.
- Total employment will continue to grow in 2013 and so will the labour force, resulting in a modest decline in the unemployment rate.

Figure 1

St. Catharines-Niagara Resale Market

Source: CREA, CMHC

*The forecasts included in this document are based on information available as of October 17, 2012.

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Resale Homes

MLS® Sales to decrease in 2013

MLS® sales will drop modestly for the remainder of 2012 and then stabilize in early 2013 before rising towards the end of the year. On an annual basis, sales will decline in both 2012 and 2013. Decent job growth in 2011 and so far in 2012 has supported resale demand early this year. However, while new mortgage rules will promote stability in the housing market over the longer term, in the short run there are likely fewer people looking to buy for the remainder of 2012. Along with stronger prices over the past year, the new mortgage rules will result in a higher monthly payment. Some buyers will have to postpone a purchase and save for a larger downpayment to keep the monthly payments within their budget while others may consider the purchase of a lower priced home. However, continued low mortgage rates through the end of 2012 and in the beginning of 2013 will provide some support to the resale market.

Economic strength in Western provinces encourages the outmigration of 20-29 year olds to continue over the next few months. Many people in this age bracket also leave the region for educational opportunities elsewhere. This outmigration will place downward pressure on sales, as this bracket encompasses some first-time buyers. However, as employment continues to strengthen through 2013 in the region, this outmigration will lessen.

The continued progression to smaller lot sizes in the region will also put downward pressure on sales. A 40' lot now often replaces a 50' lot, which used to be more traditional. Existing homeowners, traditionally looking to "move-up" into a larger home, or one with better amenities, may be unable to do so because of lot size restrictions. Many homeowners will favour renovations over purchasing, to make their existing home more compatible with future needs.

The market will remain balanced in St. Catharines through 2013. New listings dropped off in the second quarter of 2012 and have regained some stability since that time. The trend will continue to be stable in 2013. Overall, sales have been trending downward in 2012. The market has cooled in the Niagara Region since the beginning of 2012. The market will continue to cool-off through the end of 2012 and then stabilize in 2013, but remain balanced over this horizon. Improving affordability combined with stronger job growth will support prices by the second half of 2013. Balanced market conditions in 2013 will be conducive to some resale price growth. However, prices will grow at a more modest pace than in 2012.

So far through 2012, rising resale home prices have caused the required income necessary to carry a mortgage on an average-priced resale home to grow faster than the actual average household income. Slower growth in wages in 2012 and 2013 will put downward pressure on resale prices in 2013 and price will grow less than inflation after years of higher growth. Also, a lower overall level of sales will put downward pressure on price in 2013.

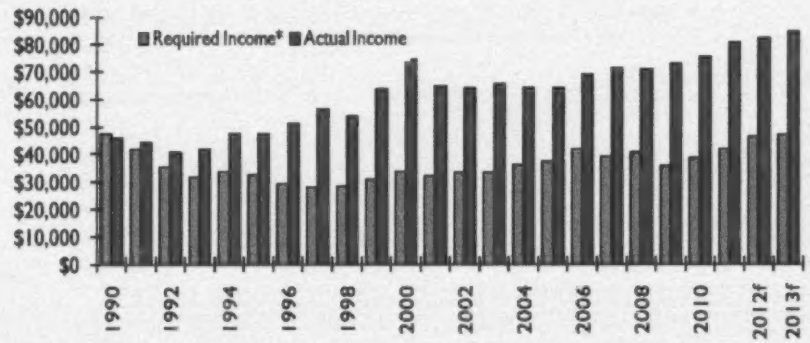
New Home Market

Starts will decline in 2012 and 2013

Starts will stay relatively level through the end of 2012 and moderate slightly in early 2013 before stabilizing later in the year. Starts have been at a lower level in 2012 than in 2011. On an annual basis, new home starts will decline in 2012 and 2013. The demand for new housing will be restrained

Figure 2

St. Catharines - Niagara Actual to Required Income



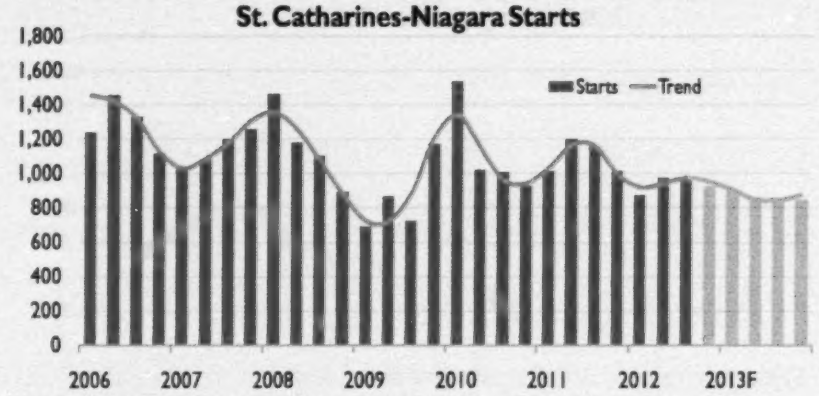
Sources: CMHC, Statistics Canada, CREA. *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

in 2013 by a slow pace of economic growth. Uncertainty regarding the global economy will weigh on business sentiment and will temper job growth in the immediate term. However, a gradual recovery in US consumer spending will support global growth by the second half of 2013. U.S economic prospects also affect St. Catharines-Niagara because the local economy relies on US tourism and US imports.

More balanced resale market conditions will limit the momentum in new home construction. A wide selection of homes at relatively lower prices in the resale market will exert competition for the new home construction industry. Townhome construction will be similar in 2012 to 2011. This will represent a higher percentage of new construction than in 2011. Over the past few years this housing type has increased as a share of total starts and single-detached construction has lost share. The trend of smaller lot sizes in the region will encourage builders to place more focus on higher-density housing types moving forward.

Demographic patterns are contributing to the increasing share of townhomes recently. While the St. Catharines Niagara population grew only very slightly between 2006 and 2011, the age range where the population grew more heavily was the broad 50 plus bracket. Townhomes are often a popular choice for mature households, who may now have smaller families and lower demands for square footage. Many of these people are coming from places where their homes were more expensive. They choose St. Catharines-Niagara for its relatively lower prices,

Figure 3



Source: CMHC *SAAR (Seasonally Adjusted Annual Rate). Monthly starts adjusted to remove seasonal variation and multiplied by 12 to reflect annual levels.

proximity to the United States and landscape combined with amenities. Purchasing a lower-priced property allows them to access some of their savings for future needs. They may also prefer townhomes as they can often involve lower upkeep versus a single-detached model and this may fit with their assessed future housing needs.

In 2013, townhomes will represent a smaller proportion of new construction than they will in 2012. Townhome starts have been trending downward in 2012 and they will continue to do so in 2013. However, townhome starts will still make up a larger percentage of starts than they have historically.

Apartment construction will decline in 2012 and then increase in 2013. Much lower apartment construction in 2012 versus 2011 is what has triggered the annual decline in total construction in 2012. However, this decline in apartment starts comes after robust apartment activity in 2011. Nevertheless, the rental apartment vacancy rate declined significantly in 2011 even with a lot of new supply of apartment units in recent years. Apartment demand was primarily driven by end users. With a high volume of apartment launches in 2011, builders have been hesitant to start new apartment projects in 2012. It is likely that the trend for higher density housing, including apartment units, will continue in the long term. This is particularly true as the population ages in Niagara. However, with so much new supply created in 2011, this trend will continue after a gradual lull in 2012.

Single-detached construction will drop in 2012 and will be fairly stable in 2013. As mentioned, land constraints and, correspondingly, smaller lot sizes, are promoting the construction of higher density housing at the expense of single-detached housing. The lower prices of homes in St. Catharines-Niagara relative to some other markets in Ontario means that first-time buying occurs at a younger age, on average. This also allows more people to purchase single-detached housing, including the younger group. However, from 2006 to 2011, there was an outflow of people from the 20-

29 age bracket, which had the effect of reducing single-detached construction. With stronger employment growth recently, there will be less migratory outflow from this age bracket moving forward and this will help support the construction of single-detached housing. Single-detached starts will be relatively stable in 2013 versus 2012, although at a lower level than in 2011.

Local Economy

Employment growth forecast for 2012 and 2013

Employment will increase significantly on an annual basis in 2012 and then moderately in 2013. Total employment in the region has been trending up through 2012. Much of the growth will come from the service-producing sector, which has led employment growth in 2012.

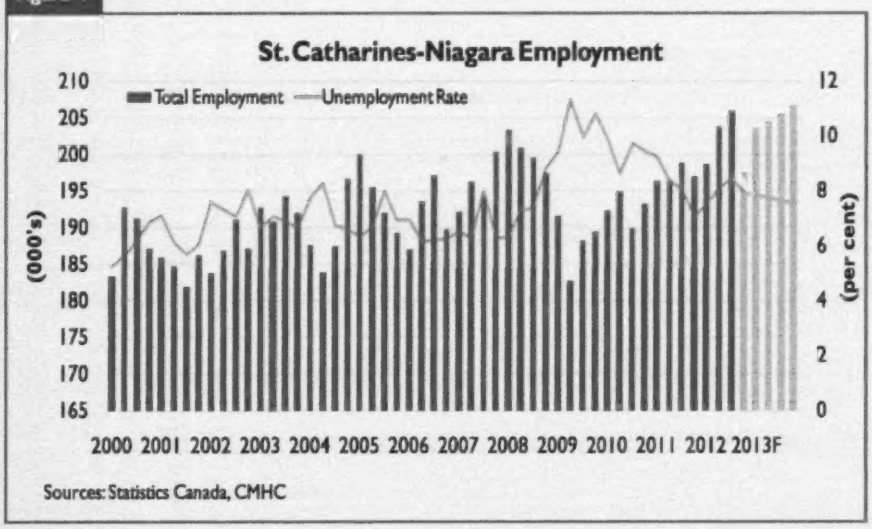
Employment has declined in the retail and transportation sectors in 2012. As the US economy gradually recovers, particularly in the second half of 2013, employment will increase in these sectors. Public sector employment has been relatively stable in 2012 and will not support employment in 2013 as governments continue to reduce their deficits. Tourism from the US into the Niagara Region has begun to stabilize recently after a long-term decline. The strength and timing of gains in the US labour market creates upside potential for employment in the Niagara region through tourism, particularly in the retail and entertainment sectors.

Employment growth in the remainder of 2012 and 2013 will be supported by higher employment for both the 25-44 and 45-64 age brackets. Employment for both groups has been increasing since 2009 and will continue to do so in 2013. The labour force growth will also be strong in 2013. In 2012, the labour force has increased quite significantly. A higher percentage of the population were either employed or actively looking for work in 2012 versus prior years. This means that more unemployed people feel that their job search has more of a chance of success than it would have in the past and they are therefore committed to searching for employment. As employment prospects continue to improve in the region, fewer people will migrate out of the area.

The unemployment rate will decline moderately in 2012 and then stabilize through 2013. On a seasonally adjusted basis, the unemployment rate has actually been increasing in 2012. However, the rate will be lower than in 2011, overall, because the rate was much higher at the beginning of 2011. In 2013, gains in overall employment will slightly outweigh increases in the labour force, resulting in a modest decline in the unemployment rate. In general, the annual decline in the unemployment rate in 2012 reflects continued recovery in the general economy.

Average weekly earnings will increase moderately in both 2012 and 2013. While employment has been growing in the region, continued financial uncertainty in the global economic environment has led businesses to be prudent in increasing their existing payrolls in 2012. The strong growth in earnings in 2011 comes after salaries were relatively stagnant in 2008, 2009 and most of 2010. However, earnings growth began to stabilize near the end of 2011 and grew more moderately in 2012. They will continue to grow moderately in 2013. Employment growth, including growth in full-time positions, will continue to support earnings growth in 2013.

Figure 4



Sources: Statistics Canada, CMHC

Mortgage Rate Outlook

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight

increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Forecast Summary
St. Catharines-Niagara CMA
Fall 2012

	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	5,808	6,024	5,798	5,440	-6.2	5,250	-3.5
MLS® New Listings	11,691	12,346	11,561	11,150	-3.6	10,900	-2.2
MLS® Average Price ($)	209,563	217,938	223,066	230,000	3.1	231,000	0.4
New Home Market							
Starts:							
Single-Detached	574	714	655	580	-11.5	585	0.9
Multiples	285	372	455	350	-23.1	280	-20.0
Semi-Detached	42	60	34	46	35.3	32	-30.4
Row/Townhouse	164	271	247	244	-1.2	168	-31.1
Apartments	79	41	174	60	-65.5	80	33.3
Starts - Total	859	1,086	1,110	930	-16.2	865	-7.0
Average Price ($):							
Single-Detached	368,423	378,640	387,693	398,000	2.7	402,500	1.1
New Housing Price Index (% chg.)	-0.6	0.8	-0.5	1.0	-	1.0	-
Rental Market							
October Vacancy Rate (%)	4.4	4.4	3.2	3.2	0.0	3.2	0.0
Two-bedroom Average Rent (October) ($)	804	817	833	855	-	872	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	187,900	192,500	197,200	201,500	2.2	205,000	1.7
Employment Growth (%)	-6.2	2.4	2.4	2.2	-	1.7	-
Unemployment rate (%)	10.3	9.4	8.2	8.0	-	7.7	-
Net Migration	847	1,603	1,538	1,160	-24.6	1,200	3.4

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over; MLS® data includes the St.Catharines, Niagara, and Welland boards

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